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URBAN DEVELOPMENT ACTION GRANTS

Effects of the 1987 Amendments on Project Selection

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Resources, Community, and
Economic Development Division

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The Honorable Henry B. Gonzalez
Chairman, Committee on Banking,
Finance, and Urban Affairs
House of Representatives

The Honorable Donald W. Riegle, Jr.
Chairman, Committee on Banking,
Housing and Urban Affairs
United States Senate

The Housing and Community Development Act of 1987, (P.L. 100-242) changed the Urban Development Action Grant's (UDAG) system of project selection, and it required GAO to report on how these changes affected the allocation of UDAG funds. These changes were made principally to ensure fairness in the allocation, distribution, and use of program funds nationwide. Specifically, GAO was directed to analyze the effect of the changes, during fiscal year 1988, on (1) the distribution of grant funds among regions of the United States, (2) the targeting of grant funds to cities and urban counties having the highest level or degree of economic distress, (3) the number and types of projects receiving grants, (4) the per-capita funding levels of each city, urban county, or identifiable community receiving grants, and (5) the stimulation of maximum economic development activity.

The UDAG program, administered by the Department of Housing and Urban Development (HUD), is designed to foster private investment in industrial, commercial, or neighborhood projects in economically distressed communities. Generally, communities are considered economically distressed if they rank among the lower half of all cities nationwide for specified measures of economic distress, such as age of housing, poverty, and unemployment. Essentially, the program provides funds to distressed communities that then grant or lend the funds to private developers, thus improving the feasibility of economic development projects that would otherwise be marginal. HUD provides funding on an individual project basis. The UDAG program requires that not less than 25 percent of all program funds go to small cities (generally cities with populations under 50,000), with the balance going to large cities (generally cities and urban counties with populations of 50,000 or

more).[1] Small cities and large cities compete for UDAG funding separately. The 1987 changes to the project selection system were designed to provide more uniform geographic distribution of awards by putting greater emphasis on the expected benefits of individual projects and less emphasis on existing community conditions.

Results in Brief

The legislative changes to the UDAG project selection system resulted in a somewhat broader geographic distribution of program funds. The share of large-city funds increased in 6 of 10 geographic areas. Two geographic areas—East North Central and Middle Atlantic—continued to receive over 70 percent of large-city funds, although there was a slight decline in the share each of these areas received. (See maps, pp. 19, 20.) In addition, the changes to the selection system resulted in the following: the selection of projects from cities experiencing less economic distress than otherwise would have been the case; generally minor changes in the number and types of projects selected as a percentage of all projects selected; higher per-capita funding ratios for small cities; and the selection of projects with higher expected economic benefits, as measured by increased private investment, number of jobs, and local tax revenues.

Background

Until the enactment of the 1987 amendments, HUD awarded all grants on the basis of a 100-point selection system comprised of both community and project factors. Community factors (indicators of economic distress such as the amount of poverty and pre-1940 housing) were assigned a maximum of 70 points. A maximum of 30 points was assigned to project factors, such as the number of jobs to be created, the amount of expected private investment, and the expected local tax revenues. Under this selection system, the weight given to community factors minimized the significance of project factors and skewed the selection process toward certain geographic regions of the country.

Under the 1987 amendments, the selection criteria for awarding grants placed greater emphasis on project factors and less emphasis on community factors. Specifically, the 1987 amendments require that 35 percent of all program funds be awarded on the basis of project points plus one or two bonus points that are permissible for projects within cities that did not have a grant approved in the preceding 1- or 2-year period. To

[1]Funding for the two small-city rounds we reviewed included funding for projects from Indian tribes. Funding for the two large-city rounds we reviewed included funding for "pockets of poverty" (severely distressed areas within cities that are otherwise ineligible for program grants).

meet this requirement, HUD implemented a "two-pot" system in which it first selects projects on the basis of all factors until 65 percent of the available funds are exhausted for that funding cycle, or "round." (UDAG applications are funded every 2 months in alternating large- and small-city rounds.) It then awards the remaining funds on the basis of project factors and bonus points only.

Community factors are still allotted 70 points, but project factors are allotted 33 points.[2] Further, although community factors continue to total 70 points, 3 of these factors (age of housing, poverty, and population growth) are weighted less heavily, while the remaining factors, including per-capita income and unemployment, are weighted more heavily. Counting the one or two extra points allowed for projects located in cities or urban counties that did not receive grant approval during the preceding 1 or 2 years, the new selection system has 105, rather than 100, total selection points. In addition, funding for each grant is limited to $10 million, and there is a $10 million cap on funds a city may receive during any round. This cap was first implemented in the September 1988 large-city funding round.

Effects of Legislative Changes on UDAG Project Selection

Since the 1987 amendments were enacted, HUD has conducted four funding rounds for UDAG projects. Two of these rounds, in May and September 1988, selected projects from large cities; the two small-city rounds were held in March and July 1988. HUD awarded 59 grants totaling $146.2 million for large-city projects from 132 qualifying large-city applications.[3] HUD also awarded 57 grants totaling $43.7 million for small-city projects from 89 qualifying small-city applications.

Greater Regional Distribution

UDAG funds were distributed somewhat more evenly nationwide under the new system than would have occurred under the previous system. (See figs. I.7 and I.8.) The East North Central region and the Middle Atlantic region continued to receive the majority of large-city funds under the new system, but somewhat less than they would have received under the old system. One other region decreased its share of large-city funds under the new system, but six regions increased their

[2]For the rounds we analyzed, HUD did not implement the changes in individual project factor points required in the act. As an interim measure, HUD applied a weight of 1.1 to each project factor, resulting in a total of 33 possible project points.

[3]Applications, or qualifying applications as used in this report, include only fundable applications. An application must meet several statutory and regulatory requirements before it is considered fundable.

shares. The new system had no effect on another region. Of those benefitting from the new system, the Mountain and West North Central regions together received 5.5 percent of large-city funds, whereas they would have received no funding under the previous system. (See table 1.)

Table 1: Regional Distribution of UDAG Funds for Large Cities

	Previous selection system		Current selection system	
Region	**Amount**	**Percent**	**Amount**	**Percent**
Caribbean	$4,330,000	3.0	$5,302,993	3.6
East North Central	59,992,975	41.1	52,206,515	35.7
East South Central	3,740,000	2.6	5,505,000	3.8
Middle Atlantic	57,735,512	39.5	53,109,001	36.3
Mountain	0	0.0	5,000,000	3.4
New England	9,682,514	6.6	2,782,514	1.9
Pacific	2,500,000	1.7	9,458,317	6.5
South Atlantic	3,344,200	2.3	5,050,000	3.5
West North Central	0	0.0	3,007,772	2.1
West South Central	4,800,000	3.3	4,800,000	3.3
Total	**$146,125,201**	**100[a]**	**$146,222,112**	**100[a]**

[a]Does not equal 100 percent due to rounding

For small cities, the greatest changes occurred in the Pacific and Middle Atlantic regions. The Pacific region received $2.7 million under the new system, but it would have received only $387,625 under the previous system. Three other regions also increased their share of small-city funds. The Middle Atlantic region received about $6.5 million under the new selection system, but it would have received $13.7 million under the previous selection system. Three other regions decreased their share of small-city funds, but the decline in two of these regions was only one-tenth of 1 percent.

Economic Distress Factors Diminished

The most economically distressed cities (as defined by HUD) —both large and small—had fewer eligible projects selected and were awarded less grant funds than they would have been under the previous selection system. Specifically, our analysis showed that under the new system, the most economically distressed large cities, as measured by distress rank, had 19 fewer projects selected and received about $26.1 million less funds. In addition, the most economically distressed small cities received $7.4 million less in funds and had 10 fewer projects selected under the new system.

For example, although Reading, Pennsylvania, is ranked by HUD as one of the most economically distressed large cities and had high community factor points, its application was not selected for a grant under the new system because it had low project points. Conversely, Los Angeles, California, one of the least distressed large cities, was awarded a grant because of its application's high project points. Further, Lambertville, New Jersey, ranked by HUD as one of the most economically distressed small cities, was not awarded a grant under the new system because its application had low project points. Conversely, Redmond, Oregon, one of the least economically distressed small cities, was awarded a grant on the basis of its application's high project points. (See tables I.7 and I.8 for a listing of cities receiving grants under the new project selection system.)

Some Differences in Number and Types of Projects Selected

Proportionately more commercial large-city projects were selected under the new system than would have been selected under the previous system. There was little difference, however, in the types of small-city projects chosen under either selection system. For both large and small cities, fewer projects were selected than would have been under the previous system. Under the new system, 14 fewer large-city projects and 6 fewer small-city projects were selected. This decrease in number of projects selected was due to increased funding per project. Total funding was held equal for projects selected under the two systems. (See tables I.3 through I.6.)

Changes in Per-Capita Funding Levels

The 1987 amendments lowered average per-capita funding for large cities but raised it for small cities. Under both selection systems, large cities continue to have a lower per-capita funding level than small cities. The average per-capita funding for large cities was about $19 and $14 under the previous and new selection systems, respectively. The average per-capita funding for small cities was about $295 and $338 under the previous and new selection systems, respectively. (See tables I.7 and I.8.)

Greater Stimulation of Economic Development Activity

Under the new selection system, HUD awarded grants to more projects that had higher expected results in terms of jobs, private investment, and generation of local tax revenues than would have occurred under the previous system. HUD selected large-city projects that, on average, were expected to generate about $14 of private investment for every UDAG dollar, 504 new permanent jobs, and a $0.33 annual increase in

local tax revenues for every UDAG dollar.[4] Under the previous selection system, HUD would have selected large-city projects that, on average, would have been expected to generate about $10 of private investment for every UDAG dollar, 316 new permanent jobs, and a $0.23 annual increase in local tax revenues for every UDAG dollar. HUD also selected small-city projects that had higher expected results. (See pp. 33-39.)

UDAG Program Not Funded in Fiscal Year 1989

UDAG program funding for fiscal year 1988 was $275 million: $216 million in 1988 appropriations, and $59 million in funds received or "recaptured" from projects that had been canceled, terminated, or reduced. The administration's fiscal year 1989 HUD budget requested no funds, and the Congress authorized none. However, HUD program officials estimate that about $50 million will be available to fund one round each of small- and large-city projects using funds HUD receives or recaptures from canceled UDAG projects or projects requiring less funds than originally anticipated.

Conclusion

The Congress amended the UDAG project selection system in 1987, principally to ensure fairness in the allocation, distribution, and use of program funds nationwide. The legislation has affected the distribution of UDAG funds substantially in some instances, and to a lesser extent in others. For example, the geographic distribution of UDAG funding changed in several regions of the country under the new system, as did per-capita funding for many individual cities. Conversely, the legislative changes had little effect on the distribution of grants and funding between project types for small cities. The legislative changes also resulted in a decline in the targeting of the UDAG program to the most economically distressed cities, and in consistently greater expected results for the projects selected.

We believe that if the experience of the first year under the new project selection system is indicative of the future trend, the following changes can be expected:

- future program funds would be less directed to the most economically distressed cities nationwide; and

[4]Both the expected private investment per UDAG dollar and the annual local tax increase per UDAG dollar do not take into account other public funds that may be required to attract private investment and the associated tax increase for particular projects.

- program funds could have a wider geographic distribution, with more project results as measured by jobs, private investment, and tax revenues generated.

To assist us in determining the effects of the 1987 legislative changes to the UDAG selection system, officials of the Data Systems and Statistics Division of HUD's Office of Community Planning and Development prepared a simulated ranked listing of 1988 fundable projects using the 1987 selection system. This office also prepared the ranked listings actually used by the Secretary in selecting the 1988 projects. We then compared the two listings to determine the differences in funding resulting from the new project selection system. We conducted our work between August and November 1988. (See app. II for details on our scope and methodology.) Because of its factual nature, we did not obtain official agency comments on a draft of this report. However, we discussed the report's contents with UDAG program officials and have incorporated their comments where appropriate.

Copies of this report will be sent to the Secretary of Housing and Urban Development, the Director, Office of Management and Budget, and other interested parties. This report was prepared under the direction of John M. Ols, Jr., Associate Director. Major contributors to the report are listed in appendix III.

J. Dexter Peach
Assistant Comptroller General

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Abbreviations

GAO	General Accounting Office
HUD	Department of Housing and Urban Development
PCF	per-capita funding
UDAG	Urban Development Action Grant

Appendix I

Effects of the 1987 Amendments on the Allocation of Urban Development Action Grant Selections

This appendix discusses the effects of the changes to the Urban Development Action Grant (UDAG) project selection system required by the Housing and Community Development Act of 1987 (P.L. 100-242), which amended the Housing and Community Development Act of 1974. Section 515 (e) (2) of the act directed GAO to issue a report that analyzes the effects of the legislative changes through the end of fiscal year 1988 on (1) the distribution of grant funds among regions of the United States; (2) the targeting of grant funds to cities and urban counties having the highest level or degree of economic distress; (3) the number and types of projects receiving grants; (4) the per-capita funding level of each city, urban county, or identifiable community receiving grants; and (5) the stimulation of the maximum economic development activity.

To analyze the effects of the legislative changes, we compared the actual outcomes of project selection for four UDAG funding rounds held in 1988 (the May and September large-city funding rounds, and the March and July small-city funding rounds) with the simulated selection results of these funding rounds had there been no changes to the selection system. HUD considered a total of 132 qualifying large-city applications and 89 qualifying small-city applications in those 4 funding rounds.[1]

In brief, we found that the changes to the UDAG project selection system required in the 1987 act have resulted in the following: selection of projects in cities with less economic distress; a wider geographic distribution of grants and grant funds; changes in the number and type of projects receiving grants; changes in many cities' per-capita funding; and the selection of projects with higher expected economic results, as measured by increases in private investment, new jobs, and local taxes.

UDAG Grants Less Targeted to Economically Distressed Cities

HUD determines which cities and urban counties are eligible for UDAG funding using minimum standards of economic distress. The standards are based on the following categories: (1) percentage of housing constructed before 1940, (2) per-capita income change, (3) percentage of poverty, (4) population growth lag, (5) the unemployment criteria used to establish the Labor Surplus Area designation, (6) job growth lag, and (7) unemployment. All of the minimum standards of economic distress for large cities are based on the median for large cities, except the Labor Surplus Area category, which is normally based on the national average unemployment rate over a 2-year period. Generally, a large city or

[1]Applications, or qualifying applications as used in this report, include only fundable applications. An application must meet several statutory and regulatory requirements before it is considered fundable.

urban county must meet three minimum standards of economic distress.[2] Small cities must meet three of the minimum standards of economic distress for small cities.[3]

Using these standards, HUD determined in October 1987 that there were 444 large cities and urban counties and over 10,000 small cities that were eligible for grants. HUD ranks the eligible large cities by their relative degree of economic distress as measured by impaction and distress. As determined by HUD, a city's impaction ranking is based upon its pre-1940 housing, poverty, and population growth lag. A city's distress ranking is based upon its unemployment, job lag, and per-capita income. For each small city, HUD assigns an impaction value between 1 and 100 percent.

Large Cities

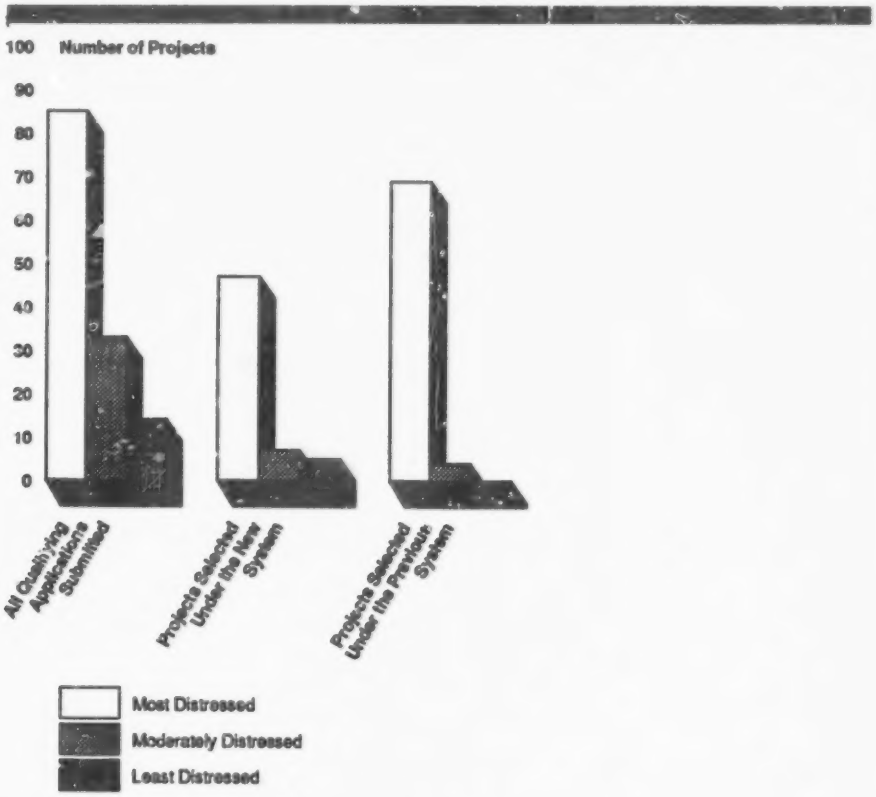
Under the new selection system, HUD awarded fewer grants and funds to the most economically distressed large cities than it would have awarded under the previous selection system.[4] For example, as measured by impaction rank, HUD selected 47 projects from the most economically distressed large cities under the new selection system. However, this is 22 fewer than it would have selected under the previous selection system. In addition, HUD selected five large-city projects from the least distressed cities, which would not have occurred under the previous selection system. (See fig. I.1.) Finally, HUD awarded less funding to the most economically distressed cities than it would have awarded using the previous selection system. (See fig. I.2.)

[2]If the percentage of poverty is less than half the median for all large cities, then the city or urban county must pass four standards.

[3]Small cities whose percentage of poverty is less than one-half of the HUD-established standard must meet four standards. The standards that small cities must meet exclude unemployment for all small cities and job growth lag for small cities with a population of less than 25,000.

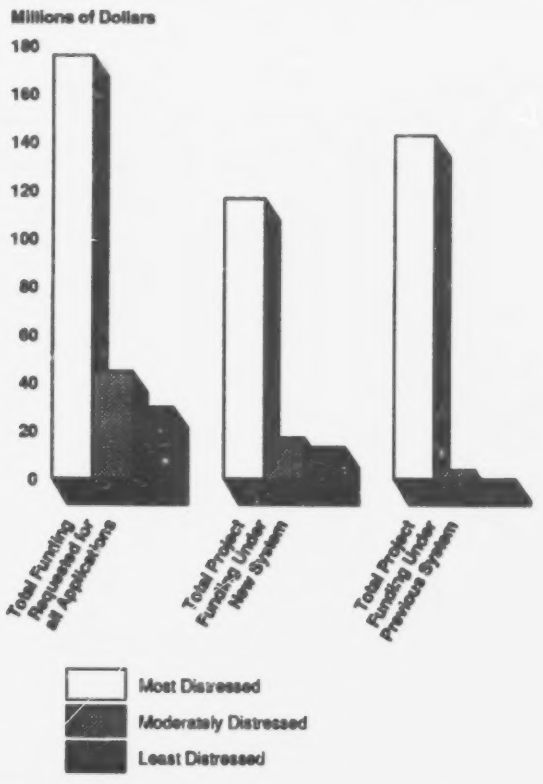
[4]For large cities, HUD assigns ranks to each of the 444 eligible cities on the basis of their level of impaction. Cities with rankings of 148 or less are "most distressed." Cities with rankings greater than 148 and less than or equal to 296 are "moderately distressed." Cities with rankings greater than 296 are "least distressed."

Figure I.1: Comparison of the Number of Large-City Projects Distributed by Level of Economic Impaction



Note: The outcome is simulated for the previous system.

Figure I.2: Comparison of Large-City UDAG Funds Distributed by Level of Economic Impaction

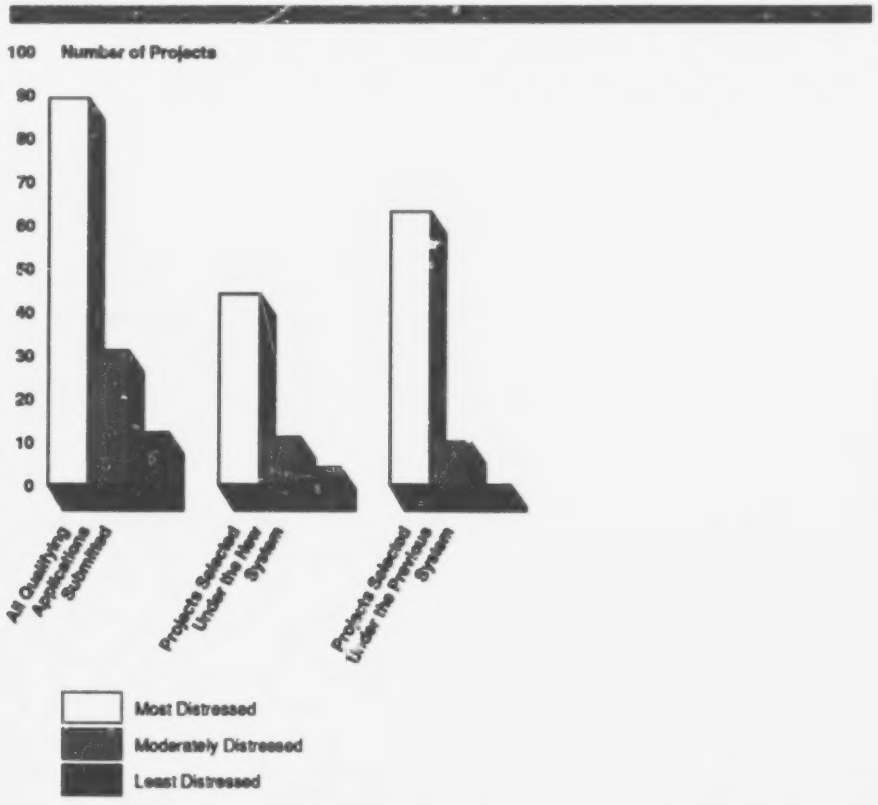


Note: The outcome is simulated for the previous system.

Under the new system, HUD also selected fewer projects and awarded less funding to the most economically distressed large cities as measured by their distress rank.[5] HUD selected four large-city projects from the least distressed cities, but it would not have selected any projects from these cities under the previous selection system. (See figs. I.3 and I.4.)

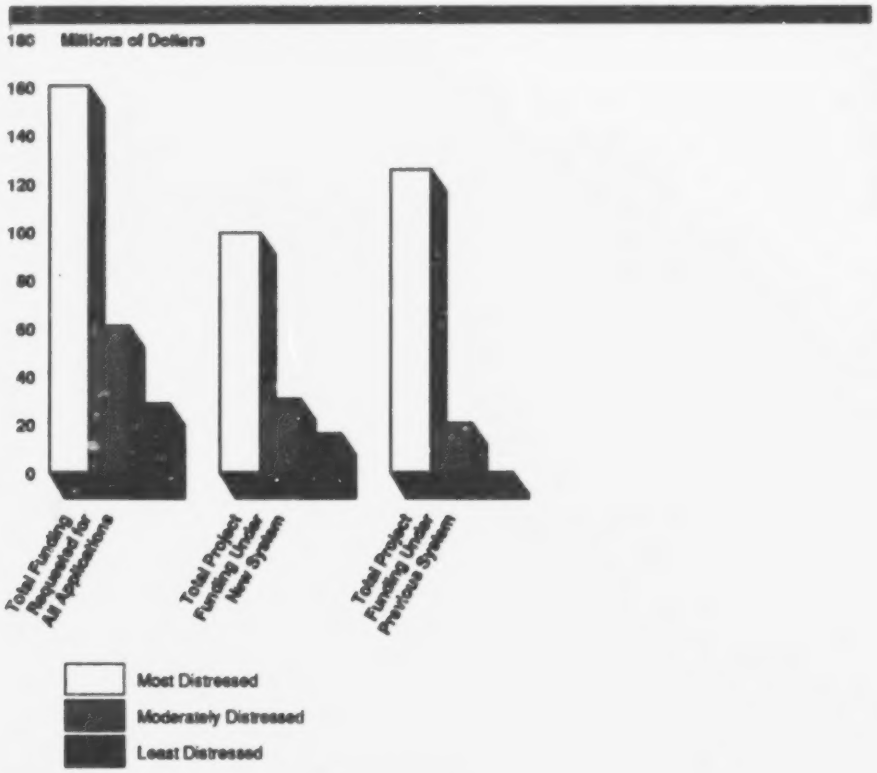
[5]For large cities, HUD assigns ranks to each of the 444 eligible cities on the basis of their level of distress. Cities with rankings of 148 or less are "most distressed." Cities with rankings greater than 148 and less than or equal to 296 are "moderately distressed." Cities with rankings greater than 296 are "least distressed."

Figure I.3: Comparison of the Number of Large-City Projects Distributed by Level of Economic Distress



Note: The outcome is simulated for the previous system.

Figure I.4: Comparison of Large-City UDAG Funds Distributed by Level of Economic Distress



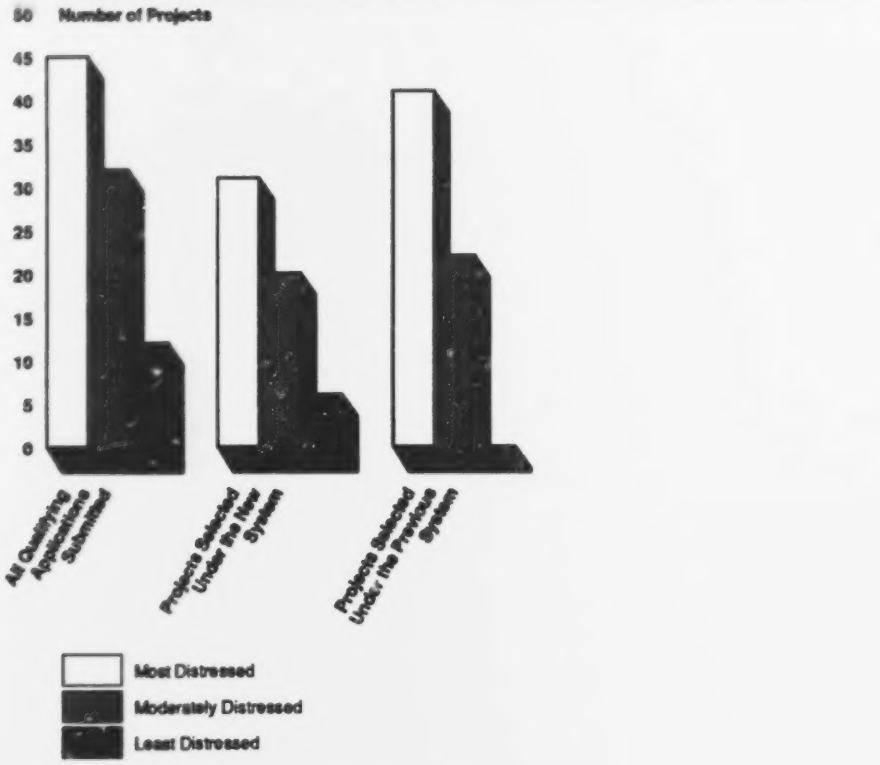
Note: The outcome is simulated for the previous system.

Small Cities

Figure I.5 shows the distribution of small-city projects by the level of each city's economic distress, as measured by HUD.[6] Under the previous selection system, HUD would have selected nearly all of the projects from the most distressed small cities that applied for funds, and none of the projects from the least distressed cities that applied. However, using the new selection system, HUD selected fewer projects from the most distressed small cities and six projects from the least distressed small cities. Figure I.6 shows that the same relationship holds true for the funding amounts.

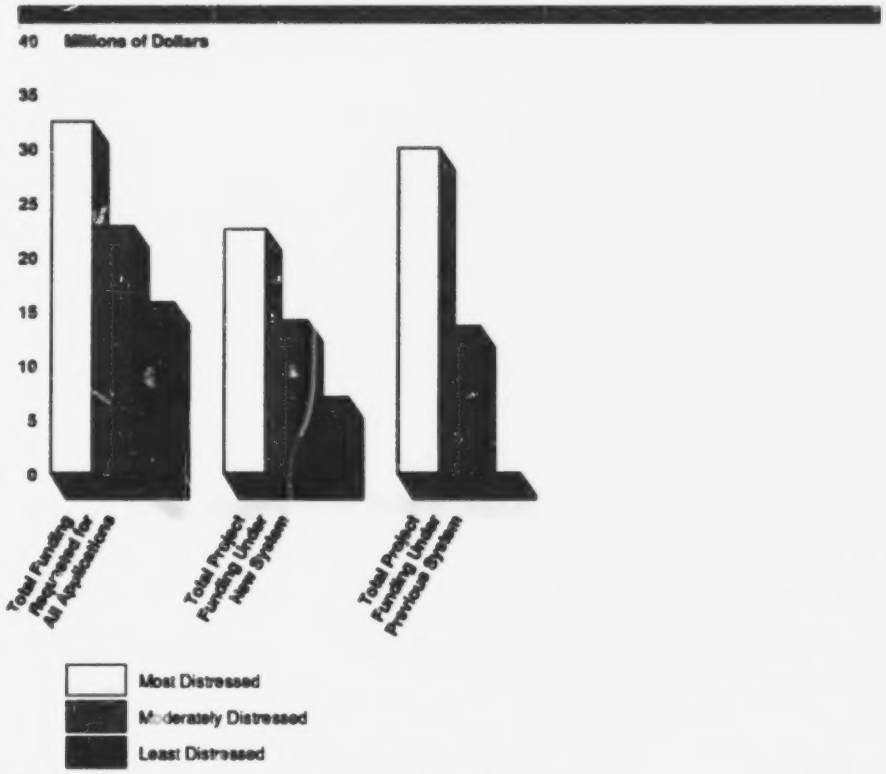
[6]For small cities, HUD measures economic distress on a 100-point percentage scale. For purposes of this report, cities with a value of 33 or less are "most distressed." Cities with values of 66 or less but greater than 33 are "moderately distressed." Cities with values greater than 66 are "least distressed."

Figure I.5: Comparison of the Number of Small-City Projects Distributed by Level of Economic Distress



Note: The outcome is simulated for the previous system.

Figure I.6: Comparison of Small-City UDAG Funds Distributed by Level of Economic Distress



Note: The outcome is simulated for the previous system

Regional Distribution of UDAG Funding

One of the purposes of the 1987 legislative changes was to give eligible communities in all regions of the nation a fair chance at competing for UDAG funding. To analyze the regional distribution of UDAG funding, we compared the distribution of funds among 10 regions.[7] (See figs. I.7 and I.8.) We found a somewhat more even distribution of UDAG funding across these regions under the new system.

Large Cities

Regional distribution of funding for large-city projects was broader under the new selection system than it would have been under the previous one. (See figure I.7.) Two regions, Mountain and West North Central, received $5 million, or 3.4 percent, and about $3 million, or 2.1 percent,

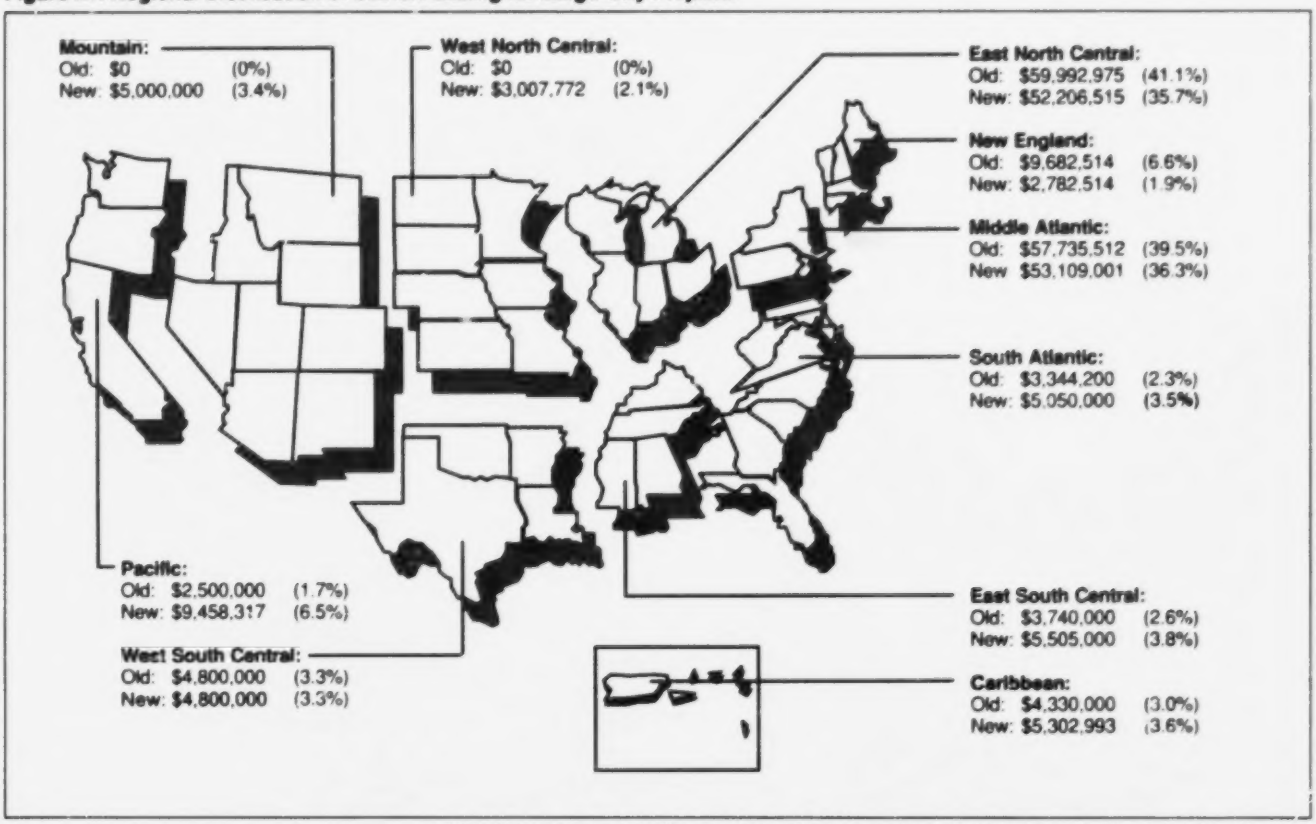
[7]Our regions are derived from the regions and census divisions designated by the U.S. Department of Commerce, Bureau of the Census.

respectively, of total large-city funding. No projects in these regions would have been funded under the previous selection system. Four regions received a greater share of funding under the new selection system than they would have received under the previous system (Pacific, East South Central, South Atlantic, and Caribbean). Of these, the Pacific region would have had the greatest percentage increase. It received about $9.5 million, or 6.5 percent, of large-city funds under the new selection system, but would have received only $2.5 million, or 1.7 percent, of large-city funds under the previous system.

Conversely, three regions received less large-city funding than they would have received under the previous selection system (East North Central, Middle Atlantic, and New England). Collectively, the East North Central and Middle Atlantic regions received about $105.3 million, or 72 percent, of large-city UDAG funds under the new system, but would have received about $117.7 million, or over 80 percent, of all large-city UDAG funds under the previous system.

The West South Central region's share of large-city funds was not affected by the change in the selection system.

Figure I.7: Regional Distribution of UDAG Funding for Large-City Projects



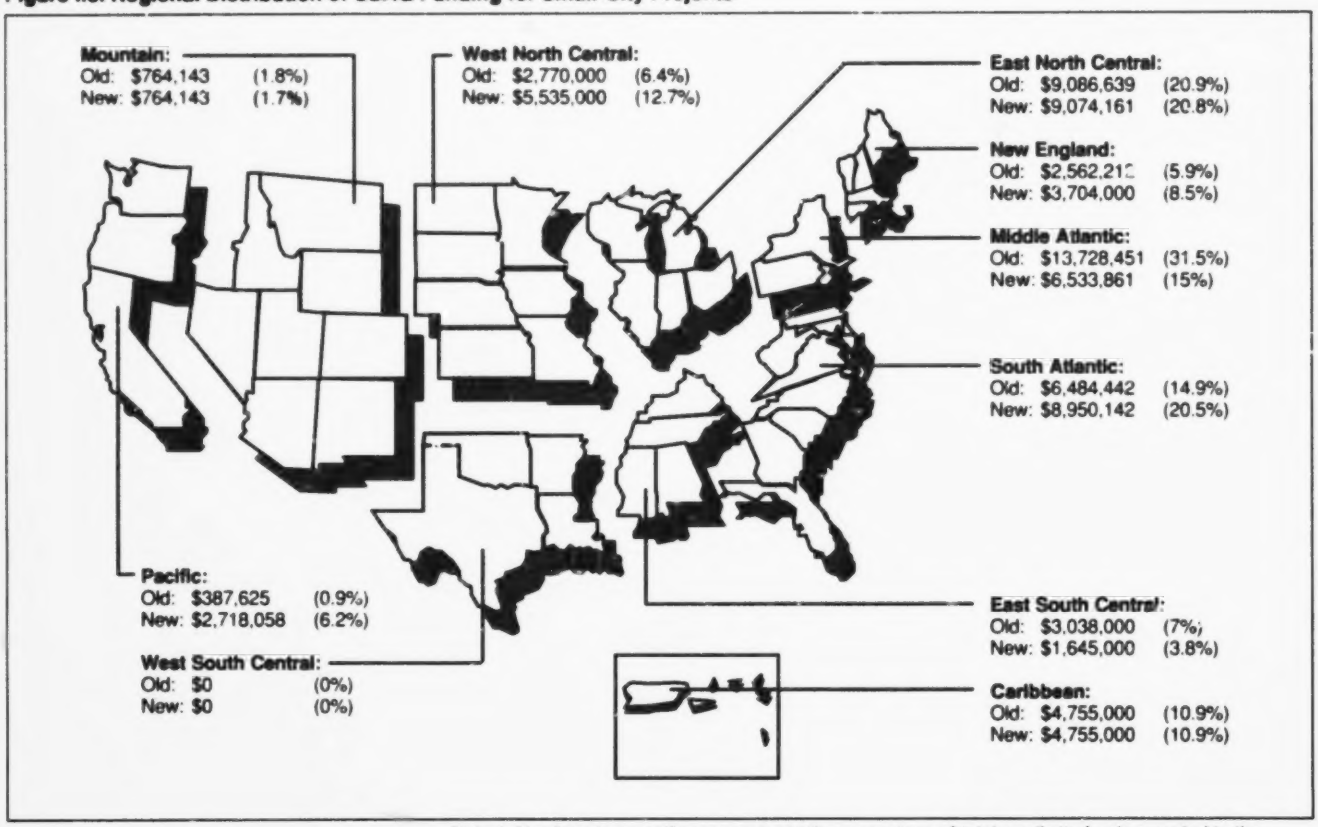
Note 1: Numbers in parentheses represent the percentage of total large-city funds awarded to the region.

Note 2: Alaska and Hawaii, which are not shown, are part of the Pacific region. Neither state submitted qualifying UDAG applications.

Small Cities

Regional distribution of funding for small-city projects also was somewhat more even under the new system. (See fig. I.8.) Four regions had a greater share of UDAG funds under the new system than they would have had under the previous system (South Atlantic, West North Central, New England, and Pacific). Two regions had a lower share of UDAG funds under the new system than they would have had under the previous system (Middle Atlantic and East South Central). And, in four regions (East North Central, Caribbean, Mountain, and West South Central), the relative share of UDAG funding remained the same or nearly the same.

Figure I.8: Regional Distribution of UDAG Funding for Small-City Projects



Note 1: Numbers in parentheses represent the percentage of total small-city funds awarded to the region. No small cities in the West South Central region applied for UDAGs during the last two small-city funding rounds.

Note 2: Alaska and Hawaii, which are not shown, are part of the Pacific region. Neither state submitted qualifying UDAG applications.

These increases and decreases of share in funding were relatively large in six regions. The smallest percentage change was in the New England region, which received about $3.7 million, or 8.5 percent, of all small-city UDAG funding under the new system, but would have received about $2.6 million, or 5.9 percent, of all small-city UDAG funding under the previous system. Conversely, the Pacific region had the largest percentage increase in funding share. It received about $2.7 million, or 6.2 percent, of all UDAG small-city funding under the new system, but would have received about $388,000, or only 0.9 percent, under the previous system.

State Distribution of UDAG Funding

The geographic distribution of UDAG funds for large-city projects and small-city projects was similar under each selection system for most states, and Puerto Rico. Some states, however, had substantial changes in UDAG funding under the two systems. Of the 50 states, the District of Columbia, and Puerto Rico, 36 submitted qualifying applications for either large-city funds, small-city funds, or both. Three of these (Florida, Mississippi, and Texas) did not receive large-city or small-city funds under the new system, and they would not have received such funds under the previous selection system. The remaining 33 jurisdictions that submitted qualifying applications received UDAG funding under the new system, and/or would have received UDAG funding under the previous system.[8] Four jurisdictions (Colorado, District of Columbia, Missouri, and Oregon) received funding under the new system, but would not have received funding under the previous system. Finally, Connecticut and Kentucky did not receive funding under the new system, but they would have received funding under the previous system.

With regard to each state's share of funding, 4 jurisdictions (Michigan, New York, Ohio, and Puerto Rico) were among the top 10 recipients of total large- and small-city funding for both selection systems. Seven jurisdictions (Illinois, Michigan, New Jersey, New York, Ohio, Pennsylvania, and Puerto Rico) were among the top 10 recipients of total large-city funding under both selection systems. Six jurisdictions (Alabama, Georgia, Michigan, New York, Ohio, and Puerto Rico) were among the top 10 recipients of total small-city funding under both selection systems. This geographic distribution of funding is discussed separately below for large and small cities.

Large Cities

The distribution of UDAG funding for large cities changed in most states that submitted qualifying large-city applications. Twenty-four states, the District of Columbia, and Puerto Rico submitted qualifying applications for UDAG large-city funds. Twenty of these either received funding under the new selection system and/or would have received funding under the previous selection system. (See table I.1.)

Of the 20 jurisdictions that either received large-city funding under the new system and/or would have received funding under the previous system, 15 had differences in funding levels in excess of 10 percent under the 2 selection systems.

[8]For the purpose of this report, "jurisdiction" includes the 50 states, the District of Columbia, and Puerto Rico.

Funding for large-city projects in five states, the District of Columbia, and Puerto Rico was about 22 percent or more greater under the new selection system than it would have been under the previous one. Five of these jurisdictions (Colorado, the District of Columbia, Indiana, Missouri, and Tennessee) would have received no funding under the previous selection system. California and Puerto Rico received about $7 million and $1 million more, respectively, for large-city projects under the new selection system. These amounts represent about 278 percent and 22 percent more funding in California and Puerto Rico, respectively, for large-city projects under the new selection system than under the old.

Conversely, funding for large-city projects in eight states was about 12 percent or more lower than it would have been under the previous system. Two of these states (Connecticut, and Georgia) received no funding under the new selection system.

Table I.1: Distribution of UDAG Funds for Large Cities by State

State	Qualifying applications		Projects selected under new system		Projects that would have been selected under previous system	
	Number	Amount	Number	Amount	Number	Amount
Alabama	10	$6,163,600	1	$255,000	4	$3,740,000
California	7	11,994,123	4	9,458,317	1	2,500,000
Colorado	1	5,000,000	1	5,000,000	0	0
Connecticut	2	7,600,000	0	0	1	6,000,000
Dist. of Col.	1	4,000,000	1	4,000,000	0	0
Florida	1	3,500,000	0	0	0	0
Georgia	6	4,311,750	0	0	1	1,000,000
Illinois	12	24,532,162	5	9,956,117	7	10,432,162
Indiana	3	2,517,395	1	735,735	0	0
Kentucky	1	2,641,260	0	0	0	0
Maryland	3	2,344,200	1	1,050,000	3	2,344,200
Massachusetts	4	3,367,514	3	1,867,514	3	2,767,514
Michigan	6	14,140,830	4	10,605,830	6	14,140,830
Minnesota	1	5,000,000	0	0	0	0
Missouri	4	7,314,661	1	3,007,772	0	0
New Jersey	8	16,090,000	7	15,730,000	8	16,090,000
New York	14	21,068,863	7	17,379,001	10	15,995,862
Ohio	17	38,765,807	10	30,908,833	13	35,419,983
Oklahoma	1	4,800,000	1	4,800,000	1	4,800,000
Pennsylvania	11	29,562,498	4	20,000,000	9	25,649,650
Puerto Rico	10	8,447,020	6	5,302,993	5	4,330,000
Rhode Island	1	915,000	1	915,000	1	915,000
Tennessee	2	11,250,000	1	5,250,000	0	0
Texas	3	10,100,000	0	0	0	0
Virginia	1	3,657,494	0	0	0	0
Washington	2	864,154	0	0	0	0
Total	**132**	**$249,948,331**	**59**	**$146,222,112**	**73**	**$146,125,201**

Small Cities

Many of the 27 jurisdictions that received small-city funding under the new system and/or the old system received substantially different small-city funding under the 2 systems. In 12 states, small-city funding changed by about 13 percent or more between the 2 systems. Five of these states received small-city funding under only one system. Twenty-four states did not receive small-city grants under either system; however, twenty-two of these states did not submit qualifying applications. No small cities in the West South Central region submitted qualifying

applications for grants in the two small-city funding rounds we reviewed.

Twenty-one states and Puerto Rico had small-city projects selected under both selection systems. Thirteen of these states received different small-city funding amounts under the 2 systems. Of these, six states (Maine, Massachusetts, Minnesota, North Carolina, Pennsylvania, and Tennessee) had differences greater than 44 percent in the funding amount. The remaining eight states and Puerto Rico had no change in the total funding amount of projects selected.

Five states had small-city projects selected under only one system. Kentucky and New Jersey would have had small-city projects selected under the previous system, but did not have projects selected under the new system. Conversely, Maryland, California, and Oregon would not have had small-city projects selected under the previous system, but did have them selected under the new system.

Table I.2: Distribution of UDAG Funds for Small Cities by State

State	Qualifying applications		Projects selected under new system		Projects that would have been selected under previous system	
	Number	Amount	Number	Amount	Number	Amount
Alabama	3	$1,593,000	3	$1,593,000	2	$1,505,000
California	1	1,600,000	1	1,600,000	0	0
Florida	1	4,220,767	0	0	0	0
Georgia	3	5,236,942	2	4,796,942	3	5,236,942
Idaho	1	464,143	1	464,143	1	464,143
Illinois	3	1,080,639	2	830,639	2	785,439
Indiana	1	650,000	1	650,000	1	650,000
Iowa	3	2,365,000	2	1,345,000	2	1,545,000
Kentucky	2	1,596,100	0	0	1	1,440,000
Maine	2	3,454,000	2	3,454,000	1	954,000
Maryland	1	2,000,000	1	2,000,000	0	0
Massachusetts	5	1,608,212	1	250,000	5	1,608,212
Michigan	8	4,362,722	6	2,692,522	5	2,540,200
Minnesota	4	3,490,000	3	3,405,000	1	440,000
Mississippi	1	3,515,000	0	0	0	0
New Jersey	1	670,000	0	0	1	670,000
New Mexico	1	300,000	1	300,000	1	300,000
New York	13	6,129,450	11	5,302,500	12	5,704,450
North Carolina	2	1,353,200	2	1,353,200	1	447,500
North Dakota	1	410,000	1	410,000	1	410,000
Ohio	6	6,634,579	3	4,136,000	4	4,346,000
Oregon	1	730,433	1	730,433	0	0
Pennsylvania	9	8,264,001	3	1,231,361	8	7,354,001
Puerto Rico	6	5,360,000	5	4,755,000	5	4,755,000
South Dakota	2	1,565,000	1	375,000	1	375,000
Tennessee	5	386,000	1	52,000	2	93,000
Virginia	1	800,000	1	800,000	1	800,000
Washington	1	387,625	1	387,625	1	387,625
Wisconsin	1	765,000	1	765,000	1	765,000
Total	**89**	**$70,991,813**	**57**	**$43,679,365**	**63**	**$43,576,512**

Change in the Number and Type of Projects Selected

The number of projects selected under the two systems differed because of the funding amounts of projects selected. However, with the exception of commercial large-city projects, there was little difference in the types of large- and small-city projects selected under the previous and new project selection systems. HUD classifies projects into three categories: industrial, commercial, and neighborhood. Industrial and commercial projects are defined by their principle activities, and although neighborhood projects usually involve housing, any project that enhances neighborhood revitalization or employment opportunities for neighborhood residents may be included in this category.

The UDAG authorizing legislation originally required the Secretary to allocate funds to achieve a reasonable balance between these three types of projects. In 1983, however, this legislation was amended to require that the Secretary not distinguish between industrial, commercial, and neighborhood projects when making awards.

Large Cities

Fewer large-city projects were selected under the new system than would have been selected under the previous system. As table I.3 shows, of the 132 qualifying large-city applications, 59 were selected under the new system, while 73 would have been selected under the previous system. The average funding amount was larger for projects selected under the new system.

Table I.3: Distribution of Large-City Projects Considered and Selected by Type

Project type	Qualifying applications	Selection system	
		New	Previous
Industrial	33	12	17
Commercial	77	42	43
Neighborhood	22	5	13
Total	**132**	**59**	**73**

Commercial projects received most of the large-city funding under both selection systems. Under the new selection system, commercial projects received about $128.6 million, or 88 percent of all large-city funds. Commercial projects would have received about $115.2 million, or 79 percent of large-city funds had HUD used the previous selection system. (See table I.4.)

Table I.4: Distribution of Funds for Large-City Projects Considered and Selected by Type

Dollars in thousands

Project type	Qualifying applications	Selection system	
		New	Previous
Industrial	$33,900	$6,916	$13,331
Commercial	190,877	128,631	115,195
Neighborhood	25,172	10,675	17,599
Total	**$249,949**	**$146,222**	**$146,125**

Small Cities

The number of small-city projects selected was lower under the new selection system. Of the 89 qualifying small-city applications, 57 were actually selected. Under the previous project selection process, 63 projects would have been selected. The decrease in the number of small-city projects selected under the new system is due to the higher average funding amount for those projects.

The types of projects selected under each system differed only slightly for small cities. The largest change between the two selection systems occurred in commercial projects, whose share of all projects selected decreased almost 3 percent under the new selection system. The number and types of projects selected under the new and previous selection systems are shown in table I.5.

Table I.5: Distribution of Small-City Projects Considered and Selected by Type

Project type	Qualifying applications	Selection system	
		New	Previous
Industrial	48	31	34
Commercial	35	22	26
Neighborhood	6	4	3
Total	**89**	**57**	**63**

Similarly, the distribution of funds between project types for small cities has not been greatly affected by the legislative amendments. For small cities, neighborhood projects showed an increase of about 5 percent in their share of total small-city funds under the new system. (See table I.6.)

Table I.6: Distribution of Funds for Small-City Projects Considered and Selected by Type

Dollars in thousands

Project type	Qualifying applications	Selection system	
		New	Previous
Industrial	$41,955	$23,371	$25,075
Commercial	23,821	15,345	15,738
Neighborhood	5,216	4,964	2,764
Total	$70,992	$43,680	$43,577

Per-Capita Funding

The 1987 amendments affected many large and small cities' per-capita UDAG funding. Of the 54 large cities that received UDAG funding under the new selection system and/or under the old system, 25, or nearly half, received funding under only 1 system, 12 received different amounts under the 2 systems, and only 17 received the same amount under both systems. Similarly, of the 70 small cities that received UDAG funding under the new selection system and/or under the old system, 28, or about 40 percent, received funding under only 1 system. Of the remaining 42 small cities, 3 received different funding under the 2 systems, and 39 received the same funding under both systems.

Under the new selection system, small cities continue to have a higher per-capita funding level than large cities. The average per-capita funding for small cities was $294.82 and $338.02 under the old and new systems, respectively. The average per-capita funding for large cities was $19.06 and $13.57 under the previous and new selection systems, respectively.

Tables I.7 and I.8 show the per-capita funding for all large and small cities that either had projects selected under the new system and/or would have had projects selected under the previous system.

Table I.7: Per-Capita Funding for Large Cities Receiving UDAGs Under One or Both Selection Systems

State/City	1984 Population[a]	Projects selected under new system			Projects that would have been selected under previous system		
		Number	Amount	PCF[b]	Number	Amount	PCF[b]
Alabama							
Bessemer	31,089	0	$0	$0.00	2	$1,185,000	$38.12
Birmingham	279,813	1	255,000	0.91	2	2,555,000	9.13
California							
Fresno	267,377	1	708,317	2.65	0	0	0.00
Los Angeles	2,124,922	1	4,250,000	2.00	0	0	0.00
Riverside	182,245	1	2,500,000	13.72	1	2,500,000	13.72
South Gate	75,714	1	2,000,000	26.42	0	0	0.00
Colorado							
Denver	504,588	1	5,000,000	9.91	0	0	0.00
Connecticut							
New Haven	124,188	0	0	0.00	1	6,000,000	48.31
District of Columbia	622,823	1	4,000,000	6.42	0	0	0.00
Georgia							
Augusta	46,024	0	0	0.00	1	1,000,000	21.73
Illinois							
Chicago	2,992,472	2	1,906,117	0.64	5	9,382,162	3.14
Cicero	61,150	1	800,000	13.08	1	800,000	13.08
E. St. Louis	51,332	1	250,000	4.87	1	250,000	4.87
Peoria	117,113	1	7,000,000	59.77	0	0	0.00
Indiana							
Fort Wayne	165,416	1	735,735	4.45	0	0	0.00
Maryland							
Baltimore	763,570	1	1,050,000	1.38	3	2,344,200	3.07
Massachusetts							
Fall River	92,038	1	600,000	6.52	1	1,500,000	16.30
Lawrence	64,432	1	750,000	11.64	1	750,000	11.64
New Bedford	97,738	1	517,514	5.29	1	517,514	5.29
Michigan							
Detroit	1,088,973	3	9,805,830	9.00	5	13,340,830	12.25
Muskegon Hts.	14,258	1	800,000	56.11	1	800,000	56.11
Missouri							
Kansas City	443,075	1	3,007,772	6.79	0	0	0.00
New Jersey							
Camden	82,537	1	1,000,000	12.12	1	1,000,000	12.12
Hoboken	41,824	1	2,000,000	47.82	1	2,000,000	47.82
Jersey City	223,004	0	0	0.00	1	360,000	1.61
Newark	314,387	4	12,030,000	38.26	4	12,030,000	38.26
Passaic	53,653	1	700,000	13.05	1	700,000	13.05
New York							
Binghamton	54,501	1	$1,099,001	$20.16	1	$5,000,000	$91.74

(continued)

State/City	1984 Population[a]	Projects selected under new system			Projects that would have been selected under previous system		
		Number	Amount	PCF[b]	Number	Amount	PCF[b]
Buffalo	338,982	2	$7,050,000	$20.80	2	$7,050,000	$20.80
New York City	7,164,742	1	8,000,000	1.12	0	0	0.00
Newburgh	24,232	1	405,000	16.71	1	405,000	16.71
Syracuse	164,219	0	0	0.00	1	1,160,000	7.06
Troy	55,328	1	75,000	1.36	3	1,511,000	27.31
Utica	72,935	1	750,000	10.28	2	869,862	11.93
Ohio							
Akron	226,877	0	0	0.00	1	1,843,000	8.12
Cleveland	546,543	6	28,358,833	51.89	7	30,058,183	55.00
Dayton	181,159	1	1,600,000	8.83	2	1,950,000	10.76
Lorain	72,789	1	550,000	7.56	0	0	0.00
Springfield	70,079	0	0	0.00	1	458,000	6.54
Warren	54,057	1	300,000	5.55	0	0	0.00
Youngstown	108,042	1	100,000	0.93	2	1,110,800	10.28
Oklahoma							
Tulsa	374,535	1	4,800,000	12.82	1	4,800,000	12.82
Pennsylvania							
Norristown	34,387	1	500,000	14.54	0	0	0.00
Philadelphia	1,646,713	2	14,500,000	8.81	4	17,350,000	10.54
Pittsburgh	402,583	1	5,000,000	12.42	1	5,000,000	12.42
Reading	78,364	0	0	0.00	1	1,886,000	24.07
Sharon	17,014	0	0	0.00	1	370,000	21.75
Wilkes-Barre	49,316	0	0	0.00	1	550,000	11.15
York	44,426	0	0	0.00	1	493,650	11.11
Puerto Rico							
Caguas Muric.	121,127	2	1,150,000	9.49	2	1,150,000	9.49
Carolina Munic.	165,740	1	972,993	5.87	0	0	0.00
San Juan Munic.	428,878	3	3,180,000	7.41	3	3,180,000	7.41
Rhode Island							
Providence	154,148	1	915,000	5.94	1	915,000	5.94
Tennessee							
Memphis	648,399	1	5,250,000	8.10	0	0	0.00

[a]Same data used by HUD in its latest eligibility determination.

[b]Per-capita funding.

Table I.8: Per-Capita Funding for Small Cities Receiving UDAGs Under One or Both Selection Systems

State/City	1984 Population[a]	Projects selected under new system			Projects that would have been selected under previous system		
		Number	Amount	PCF[b]	Number	Amount	PCF[b]
Alabama							
Auburn	29,063	1	$88,000	$3.03	0	$0	$0.00
Autaugaville	902	1	1,040,000	1,152.99	1	1,040,000	1,152.99
Selma	27,096	1	465,000	17.16	1	465,000	17.16
California							
San Pablo	21,144	1	1,600,000	75.67	0	0	0.00
Georgia							
Americus	16,489	0	0	0.00	1	440,000	26.68
Crawfordville	654	1	3,281,942	5,018.26	1	3,281,942	5,018.26
Thomaston	9,848	1	1,515,000	153.84	1	1,515,000	153.84
Idaho							
Wallace	1,593	1	464,143	291.36	1	464,143	291.36
Illinois							
Dixon	14,067	1	295,200	20.99	0	0	0.00
Greenville	5,028	1	535,439	106.49	1	535,439	106.49
Hanover	991	0	0	0.00	1	250,000	252.27
Indiana							
Garrett	4,615	1	650,000	140.85	1	650,000	140.85
Iowa							
Albia	4,023	1	820,000	203.83	1	1,020,000	253.54
Sac & Fox Tribe	530	1	525,000	990.57	1	525,000	990.57
Kentucky							
Paintsville	3,654	0	0	0.00	1	1,440,000	394.09
Maine							
Madawaska Town	5,104	1	2,500,000	489.81	0	0	0.00
Pleasant Point	576	1	954,000	1,656.25	1	954,000	1,656.25
Maryland							
Capitol Heights	3,729	1	2,000,000	536.34	0	0	0.00
Massachusetts							
Ayer Town	6,637	0	0	0.00	1	169,212	25.50
Gardner	18,150	0	0	0.00	1	339,000	18.68
Taunton	45,411	1	250,000	5.51	3	1,100,000	24.22
Michigan							
Baraga	1,123	1	165,000	146.93	1	165,000	146.93
Hazel Park	20,294	1	387,522	19.10	0	0	0.00
Houghton	8,197	1	105,000	12.81	1	105,000	12.81
Iron Mountain	8,494	0	0	0.00	1	745,200	87.73
Ishpeming	7,413	1	600,000	80.94	1	600,000	80.94
Marquette	21,666	1	725,000	33.46	1	925,000	42.69
St. Clair	4,766	1	710,000	148.97	0	0	0.00
Minnesota							
Faribault	16,434	1	440,000	26.77	1	440,000	26.77

(continued)

State/City	1984 Population[a]	Projects selected under new system			Projects that would have been selected under previous system		
		Number	Amount	PCF[b]	Number	Amount	PCF[b]
Montevideo	5,783	1	$765,000	$132.28	0	$0	$0.00
Warroad	1,308	1	2,200,000	1,681.96	0	0	0.00
New Jersey							
Lambertville	4,016	0	0	0.00	1	670,000	166.83
New Mexico							
Taos	3,444	1	300,000	87.11	1	300,000	87.11
New York							
Auburn	32,144	1	128,500	4.00	1	128,500	4.00
Batavia	16,413	1	820,000	49.96	1	820,000	49.96
Fallsburg Town	10,600	1	108,000	10.19	1	108,000	10.19
Gloversville	17,619	4	2,353,000	133.55	4	2,353,000	133.55
Hudson	8,219	1	556,000	67.65	1	556,000	67.65
Lake Placid	2,454	0	0	0.00	1	415,000	169.11
New Paltz Town	10,672	1	425,000	39.82	0	0	0.00
North Elba Town	7,119	0	0	0.00	1	411,950	57.87
Peekskill	18,888	1	377,000	19.96	1	377,000	19.96
Saranac Lake	5,456	1	535,000	98.06	1	535,000	98.06
North Carolina							
Belhaven	2,393	1	447,500	187.00	1	447,500	187.00
St. Pauls	1,669	1	905,700	542.66	0	0	0.00
North Dakota							
Lehr	226	1	410,000	1,814.16	1	410,000	1,814.16
Ohio							
Alliance	23,688	1	650,000	27.44	1	650,000	27.44
Lakemore	2,765	0	0	0.00	1	210,000	75.95
Middleport	2,823	1	65,000	23.03	1	65,000	23.03
Norwood	25,382	1	3,421,000	134.78	1	3,421,000	134.78
Oregon							
Redmond	6,765	1	730,433	107.97	0	0	0.00
Pennsylvania							
Bristol	10,747	0	0	0.00	1	195,000	18.14
Carbondale	10,992	1	79,000	7.19	1	79,000	7.19
Clarks Summit	5,446	1	100,000	18.36	1	100,000	18.36
Conshohocken	8,476	0	0	0.00	1	252,640	29.81
Greensburg	17,074	1	1,052,361	61.64	1	1,052,361	61.64
Oxford	3,993	0	0	0.00	1	3,725,000	932.88
Sharpsville	5,227	0	0	0.00	1	550,000	105.22
Taylor	7,229	0	0	0.00	1	1,400,000	193.66
Puerto Rico							
Canovanas Munic.	32,408	1	1,710,000	52.76	1	1,710,000	52.76
Catano Munic.	25,889	1	340,000	13.13	1	340,000	13.13
Gurabo Munic.	24,953	1	770,000	30.86	1	770,000	30.86

(continued)

State/City	1984 Population[a]	Projects selected under new system			Projects that would have been selected under previous system		
		Number	Amount	PCF[b]	Number	Amount	PCF[b]
Manati Munic.	38,043	1	$1,010,000	$26.55	1	$1,010,000	$26.55
Yabucoa Munic.	31,391	1	925,000	29.47	1	925,000	29.47
South Dakota							
Huron	12,379	1	375,000	30.29	1	375,000	30.29
Tennessee							
Iron City	522	1	52,000	99.62	1	52,000	99.62
Mount Pleasant	3,086	0	0	0.00	1	41,000	13.29
Virginia							
South Boston	7,303	1	800,000	109.54	1	800,000	109.54
Washington							
Coleville Tribe	4,124	1	387,625	93.99	1	387,625	93.99
Wisconsin							
Prentice	645	1	765,000	1,186.05	1	765,000	1,186.05

[a]Same data used by HUD in its latest eligibility determination.

[b]Per-capita funding.

More Projects With Higher Expected Economic Benefits Are Selected Under New System

For both large and small cities, we compared the expected economic benefits such as leverage ratio,[9] total jobs, annual increased property tax, other taxes, and payments in lieu of tax for projects selected under both selection systems.[10] The data we used in our comparisons are the basis upon which HUD assigned project points when selecting projects. This analysis shows how efficiently UDAG funds are utilized among qualifying project applications under the 1987 amendments. We found that under the new system HUD awarded more UDAG funds to projects with higher expected economic benefits.

Private Investment

In determining whether to award a UDAG grant, HUD assigns up to 10 project points on the basis of the expected amount of private investment

[9]Leverage ratio measures the private investment attracted by UDAG dollars. This is calculated by dividing UDAG dollars into the private investment amount.

[10]These figures should be carefully interpreted for several reasons. First, expected economic benefits of UDAG projects may not be realized because the data we used for our comparisons came from the applications submitted. UDAG program officials told us that these expectations can change or be modified for various reasons through the life of a project. Second, opinions from UDAG experts vary as to whether UDAG projects create a net gain in economic activity. Third, these measures of expected benefits do not take into account other public funds that may be used to attract private investment in some projects.

attracted by each UDAG dollar.[11] HUD calls this the leverage ratio for a project. At a minimum, HUD requires $2.50 of private investment for every UDAG dollar requested. We found that HUD selected both large- and small-city projects under the new system that had a higher leverage ratio than would have been the case under the previous system.

Large Cities

For large cities, the average leverage ratio for all qualifying project applications was 10.8 and 10.4 under the new and previous selection systems, respectively. However, using the new system, HUD selected large-city projects with an average leverage ratio of 13.5. Under the previous selection system, HUD would have selected projects with a lower average leverage ratio (9.7).

Small Cities

While the average leverage ratio for all qualifying small-city applications was 7.4, HUD selected projects with an average leverage ratio of 8.5. Under the previous selection system, HUD would have selected projects with an average leverage ratio of 7.2.

Jobs

HUD assigns up to six project selection points on the basis of the efficiency of UDAG funds in creating new permanent jobs. HUD also assigns up to two project points for the expected number of new permanent jobs created by a project, and it may assign up to four additional project points on the basis of the type of new permanent and other jobs created. For both large and small cities, HUD selected projects that required less UDAG funds to create a job and that had a higher expected number of new permanent jobs than would have been the case under the previous selection system.

Large Cities

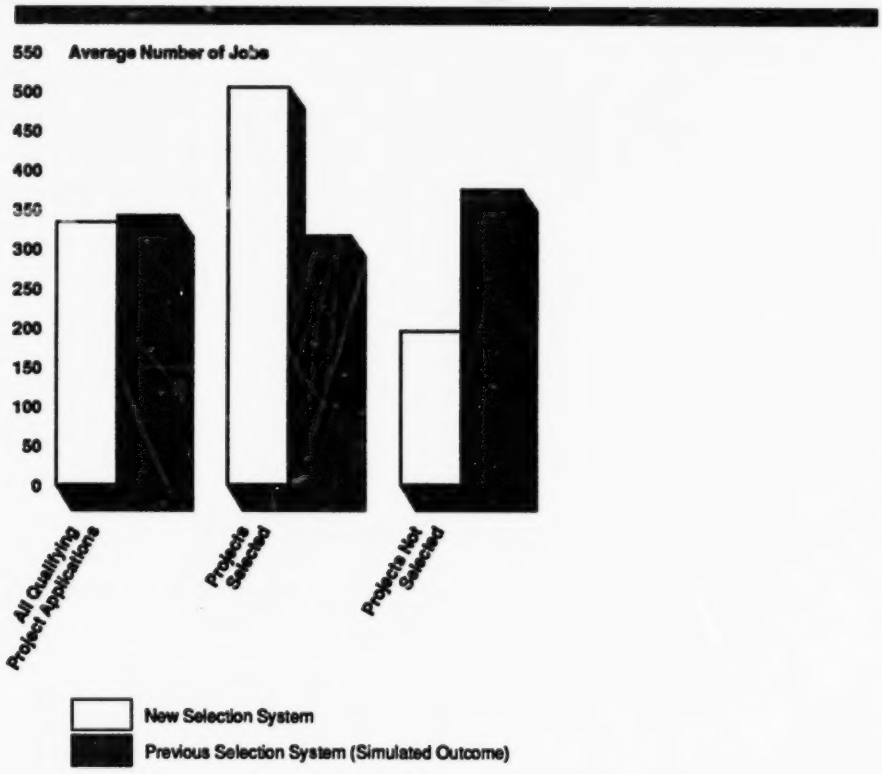
For large cities, HUD selected projects that needed less funds to create a new permanent job than would have been needed for projects selected under the previous system. That is, while the median amount of funding per expected job was $4,594 for projects selected under the new system, it would have been $7,483 under the previous system. The median

[11]Changes to individual project factor points required by the 1987 amendments were not fully implemented in the rounds we analyzed. As an interim measure, HUD weighted individual project factors by 1.1 in order to develop total project points of 33 as required by the amendments.

amount of funding per expected job was $6,250 and $6,147 for all qualifying project applications under the new and previous systems, respectively.

One reason for the difference in the funding per job is that the projects selected under the new selection system had higher expected total jobs created. On average, each qualifying large-city project application promised to create 333 and 341 new permanent jobs under the new and previous systems, respectively. However, HUD selected projects that, on average, promised to create 504 new permanent jobs each. Conversely, had HUD used the previous selection system, it would have selected projects that, on average, expected to create 316 new permanent jobs. (See fig. I.9.)

Figure I.9: Comparison of the Average Number of Total Jobs Expected From Large-City Projects

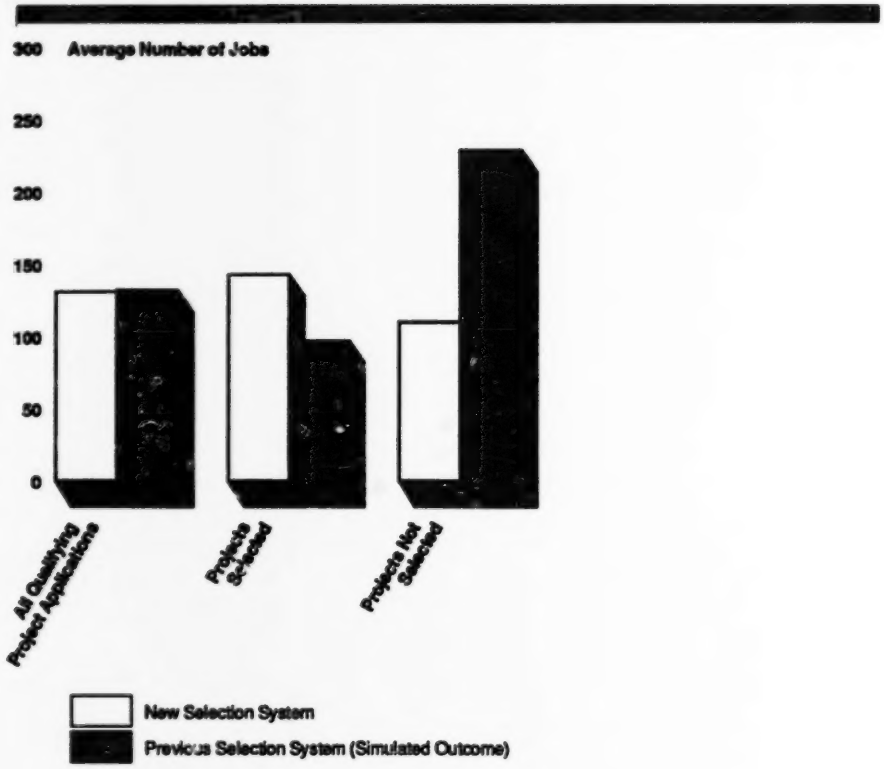


Small Cities

As with large-city projects, HUD selected small-city projects that required less funding to create each new permanent job than would have been the case under the previous system. On a median basis, each job required $6,307 and $6,164 for the universe of qualifying small-city applications under the previous and new selection systems, respectively. HUD selected projects that, as a median, required $5,961 in UDAG funds per job. Under the previous selection system, HUD would have selected projects that, as a median, would have required $6,578 in UDAG funds.

On average, HUD selected small-city projects with a greater number of expected new permanent jobs than under the previous selection system. While the average number of jobs for all qualifying small-city applications was 131, HUD selected small-city projects averaging 143 jobs. Under the previous selection system, HUD would have selected small-city projects with an average of 97 new permanent jobs. (See fig. I.10.)

Figure I.10: Comparison of the Average Number of Total Jobs Expected From Small-City Projects



Taxes

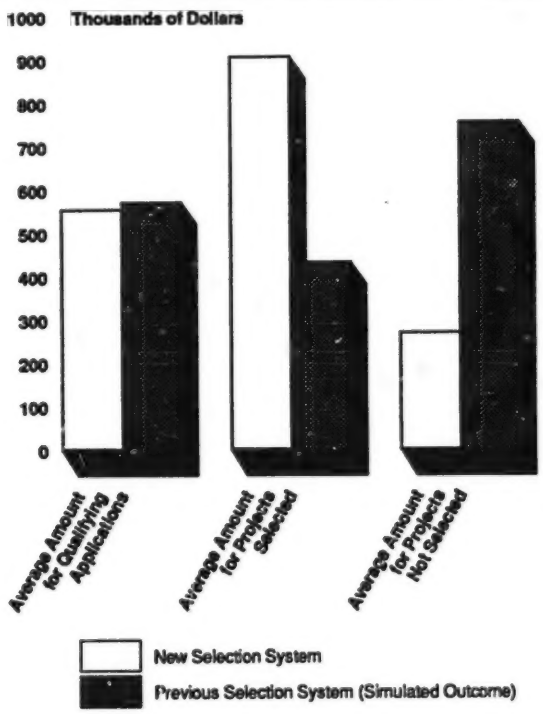
For both large and small cities, HUD selected projects with greater expected taxes per UDAG dollar and a greater expected amount of total taxes than would have been expected under the previous selection system. HUD may assign one project selection point on the basis of the expected tax benefits per UDAG dollar.

Large Cities

Large cities had a $0.24 average expected tax benefit per UDAG dollar for all qualifying applications. HUD selected projects with an average expected tax benefit of $0.33 for every UDAG dollar. Under the previous selection system, this ratio would have been $0.23. The differences in these ratios are partly due to the changes in the average total taxes expected from large-city projects selected under the two systems. The average annual increase in expected total taxes from all projects is $553,661 and $570,111, respectively, for the universe of qualifying

applications under the new and previous selection systems. HUD selected projects with an expected average annual increase in total taxes of $906,196. Had it used the previous selection system, HUD would have selected projects whose average expected annual tax increase was $431,128. (See fig. I.11.)

Figure I.11: Comparison of the Annual Total Tax Increase Expected From Large-City Projects

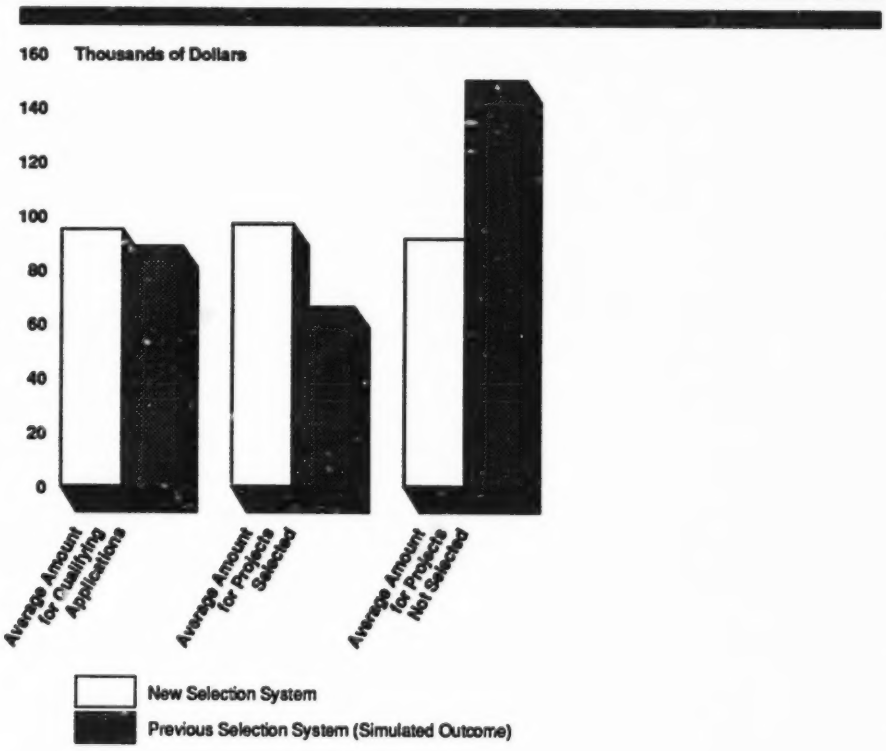


Small Cities

For small cities, the expected average tax benefit per UDAG dollar and the expected average annual total tax increase follow a pattern similar to that exhibited for large cities, though to a lesser extent. The average tax benefit per UDAG dollar for all qualifying small-city project applications was about $0.12 for the universe of applications under the new selection system, and $0.11 for the universe of qualifying applications under the previous system. HUD selected projects expected to generate $0.13 of taxes for every UDAG dollar. Had HUD used the previous selection system, this ratio would have been $0.11.

As with large cities, though to a lesser degree, HUD selected small-city projects with a higher expected annual increase in total taxes. HUD selected small-city projects with an expected increase in annual taxes of $96,851; it would have selected projects with an expected increase of $66,212 had it used the previous selection system. (See fig. I.12.)

Figure I.12: Comparison of the Annual Total Tax Increase Expected From Small-City Projects



Objectives, Scope and Methodology

The Housing and Community Development Act of 1987 requires that GAO describe the effect of the 1987 amendments on the regional distribution of funds, the targeting of funds by degree of economic distress, the number and type of projects receiving grants, the per-capita funding levels for each city or "pocket of poverty" receiving grants, and the stimulation of the maximum economic development activity.

To do this, we compared the actual outcomes of project selection for four funding rounds with the expected project selection had there been no changes to the selection criteria. The four 1988 funding rounds are the March and July small-city rounds and the May and September large-city rounds. At our request, HUD's Data Systems and Statistics Division of the Office of Community Planning and Development prepared a simulated ranked listing of 1988 fundable projects using the 1987 selection formula. This office also prepared the ranked listings actually used by the Secretary in selecting 1988 projects.

The simulation was prepared on a funding round basis, considering the projects that actually competed in each round. HUD did not include eight small-city projects, and six large-city projects in the July and September simulations because data on these projects were not included in the data bases used in those rounds.

We did not include three small-city and four large-city projects in the July and September simulations because they were selected in the previous simulations (March and May), and therefore, would not have been considered in subsequent funding rounds in actual practice.

Conversely, 6 small-city projects and 12 large-city projects that unsuccessfully competed in the March and May actual funding rounds and were reconsidered in the subsequent funding rounds are counted as separate projects in our statistics. Similarly, three small-city projects and nine large-city projects that unsuccessfully competed in the March and May simulated funding rounds and were reconsidered in the subsequent simulated funding rounds are counted separately.

There were seven fewer qualifying applications under the simulation, and the total funding requested for all qualifying applications was $1,139,001 less in the simulation than was the case for qualifying applications included under the new system.

Data on project characteristics were drawn from agency data base files in the Action Grant Information System. These data are based upon

information provided by the applicant. HUD officials caution that these data may change through the life of the project. Although we did not assess the reliability of these data, they are the best available.

Our work was performed primarily at HUD headquarters in Washington, D.C., between August and November 1988. We interviewed agency officials, reviewed HUD policy documents and analyses of the selection system, reviewed legislation, and compared the actual and simulated results of the four funding rounds. Because of its informational nature, we did not obtain official agency comments on a draft of this report. We did, however, discuss its contents with program officials and where appropriate, we have incorporated their comments in this report.

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